

Schedule of Audit Findings and Responses

City of Napavine Lewis County January 1, 2007 through December 31, 2008

- 1. The City does not have adequate documentation to support charges to its restricted funds.**

Description of Condition

The water and sewer funds had a combined operating budget in 2007 and 2008 of approximately \$880,000 and \$1.25 million, respectively. The City provides water and sewer utilities to approximately 575 customers. In 2007 and 2008, the City billed for services approximately \$580,000 and \$675,000, respectively. The revenue collected is for the support and maintenance of the City's water and sewer systems.

The City paid approximately \$210,000 in 2007 and \$300,000 in 2008 in payroll costs out of the water and sewer funds. Employees that work in the Police Department and Municipal Court do not have any payroll costs allocated to the water and sewer funds. However, all other employees, such as the City Clerk, Deputy Clerk, public works employees and the Building Inspector had at least 50 percent of their payroll costs attributed to these funds, with the remaining amount to the current expense fund, which includes community development and the street fund.

The City's procedure is to allocate payroll costs to funds according to their budgeted expenditures. This gives the appearance it could be using restricted funds for general government purposes. The City does not retain documentation, such as timesheets, to support that they are in compliance with RCW 35.33.123, which requires the percentage of payroll allocated to the water and sewer funds be based on the value of such services.

In addition, the City allocated \$10,500 of the \$26,250, or 40 percent of the cost for the city hall lease to the water and sewer funds. The City has no documentation to support their allocation of the expense. The City made payments totaling \$19,373 for costs of the new city hall building exclusively from the water and sewer funds. These purchases should have been allocated to other funds. The purchases include: an appraisal of the building, installation of phones, installation of electrical wiring and outlets, as well as the installation of a flagpole.

Cause of Condition

During the audit period, the City experienced three different turnovers in the City Clerk's position resulting in inconsistency and inexperience.

Additionally, the City has not been cutting expenses in relation to declining revenue. Instead it has been budgeting more expenditures to restricted funds.

Effect of Condition

If the City were to charge the appropriate amount of payroll to the water/sewer funds, it may negatively impact its financial condition in the General Fund. This could result in the City's inability to meet financial obligations, as well as having one fund benefiting from another.

Recommendation

We recommend the City ensure restricted funds are only used for allowable purposes and that adequate support be retained to support restricted fund use.

We also recommend the City consider the impact of this issue on its financial condition and take necessary steps to cut expenses if necessary.

City's Response

The City of Napavine is committed to maintaining procedures and processes to ensure complete accountability and proper appropriations of city resources. The City agrees with the findings by the Washington State Auditor's Office.

The City has evaluated its water and sewer rates and adjusted them appropriately last year in order to meet the cost of expenditures. The City has also implemented documentation procedures, per the Auditor's recommendations, to meet the requirements of justifying salary costs for each respective department. The City does maintain timesheets and implemented a time clock in 2009, however the Auditor's Office has requested additional documentation to support specific time each employee works in each department. For example, the City has public works employees that perform work on sewer, water and street projects and maintenance at any given time. Documenting the constantly changing dynamics of work allocated between specific departments is challenging.

In addition, the City allocated costs for the new city hall lease to water and sewer funds. Similar costs were also allocated from other departments as well. The water and sewer departments are located within the new city hall building and therefore share some of the costs. The City has implemented a cost allocation based on square footage used by each department to better reflect the costs to each fund and fulfill the documentation requirements of the Auditor's Office.

Finally, the City has worked diligently to reduce expenditures in light of the economic conditions felt throughout the nation. This will be an ongoing focus to ensure that we are working within the established budget passed by the elected officials of the City and to maintain the most efficient use of resources.

Auditor's Remarks

We will review the status of the finding during the City's next audit.

Applicable Laws and Regulations

RCW 35.33.123 Administration, oversight, or supervision of utility--Reimbursement from utility budget authorized.

Whenever any city or town apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city or town, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's or town's current expense fund for the value of such services.